



JANUARY 11, 2013

Highlights

The Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) by 150 basis points to 9.50 percent on January 10, 2013 from 11.0 percent.

The money market was relatively liquid during the week ending January 9, 2013. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 20.3 billion through repo securities and Ksh 15.5 billion in term auction deposits against maturities of repo securities held by commercial banks of Ksh 29.6 billion. The average interbank rate decreased marginally to 5.26 percent during the week ending January 9, 2013 compared with 5.98 percent recorded in the previous week.

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending January 10, 2013. Against the US dollar the Kenya Shilling depreciated marginally to trade at an average of KSh 86.50 per USD compared to KSh 86.11 per USD in the week ending January 3, 2013.

The usable official foreign exchange reserves held by Central Bank decreased from US Dollar 5,369 million (equivalent to 4.21 months of import cover) as at January 3, 2013 to US Dollar 5,282 million (equivalent to 4.15 months of import cover) in the week ending January 10, 2013.

During the week ending January 11, 2013, the Government offered for sale Treasury bills worth Ksh 7.0 billion. Bids worth Ksh 6.0 billion were received out of which Ksh 4.0 billion were accepted.

Gross Government domestic debt increased by Ksh 112.3 billion to Ksh 971.2 billion on January 4, 2013, from Ksh 858.8 billion at the end of June 2012. During the week under review, gross government domestic debt declined by Ksh 0.6 billion on account of Treasury bills.

Capital markets performed favorably in the week ending January 10, 2013. All equities market indices rose, with; the NSE 20 Share Index, NASI, the FTSE NSE 15 Index and FTSE NSE 25 Index gaining 160.48 points, 4.95 points, 6.17 points and 6.48 points, respectively. Market capitalization was up Ksh 66.43 billion, while equity turnover gained 317.4 percent. Bonds activity was 148.7 percent up in turnover, while the FTSE NSE Kenyan Shilling Government Bond Index lost 90 basis points.

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Monetary Policy Operations

The money market was relatively liquid during the week ending January 9, 2013. The Central Bank sterilized the excess liquidity in the money market by mopping Ksh 20.3 billion through repo securities and Ksh 15.5 billion in term auction deposits against maturities of repo securities held by commercial banks of Ksh 29.6 billion. Reserve money averaged Ksh 276.4 billion during the week and was Ksh 11.4 billion below target (Table 1).

Table 1: Open Market Operations (Ksh Billion)

Date	Reserve Money* (Projected)			OMO				Reserve money performance		Bank Reserves	Currency Outside Banks
	Forecast	Target	Exc(+)/Short(-)	Posted	Mop up		Exc(+)/Short(-)	Actual	Exc(+)/Short(-)	Exc(+)/Short(-)	Exc(+)/Short(-)
					Repo	Term Auction Deposit					
	(1)	(2)	3=(1-2)	(4)	(5)	(6)	7=(5+6-4)	(8)	9=(8-2)	(10)	(11)
03-Jan-12	293.4	288.1	5.3	10.0	5.5	2.3	-2.2	286.9	-1.2	9.2	-10.4
04-Jan-12	291.9	288.1	3.8	6.5	6.4	4.0	3.9	282.4	-5.7	5.3	-11.0
07-Jan-12	284.2	287.6	-3.3	7.1	7.1	7.2	7.2	271.3	-16.2	-6.1	-10.1
08-Jan-12	272.1	287.6	-15.5	2.0	0.1	2.0	0.1	269.2	-18.4	-9.3	-9.1
09-Jan-12	274.4	287.6	-13.2	2.0	1.2	0.0	-0.8	272.3	-15.3	-6.4	-8.9
Average	283.2	287.8	-4.6	5.5	4.1	3.1	1.6	276.4	-11.4	-1.5	-9.9

Source: Central Bank of Kenya

Interbank and REPO Rates

The average interbank rate decreased marginally to 5.26 percent during the week ending January 9, 2013 compared with 5.98 percent recorded in the previous week. The average interbank volumes transacted rose marginally to Ksh 7.8 billion from Ksh 7.4 billion transacted in the previous week, while the average number of deals was 41 compared with 31 deals in the previous week (Table 2 and Chart A).

Table 2: Interbank Deals, Volumes and Interest Rates

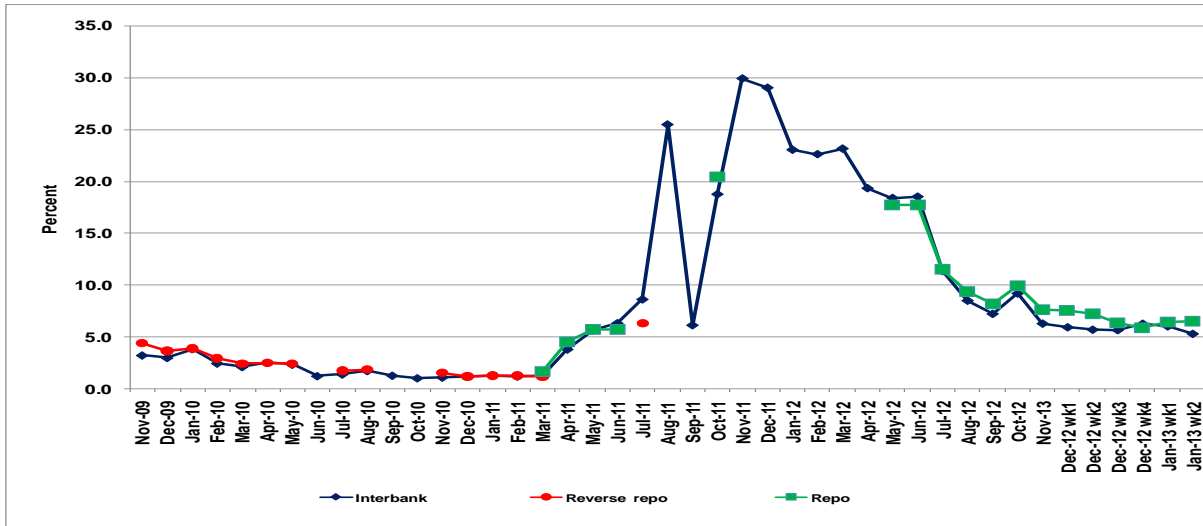
Date	Number of deals	Value (Ksh M)	Average Interest Rate (%)
27-Dec-12	39	11,720	6.60
28-Dec-12	37	8,188	6.20
31-Dec-12	19	3,978	5.63
02-Jan-13	28	5,700	5.50
December 27 -January 2, 2013	31	7,396	5.98
03-Jan-13	36	7,551	5.37
04-Jan-13	43	6,966	5.25
07-Jan-13	46	8,624	5.22
08-Jan-13	37	5,826	5.23
09-Jan-13	44	10,155	5.25
January 3 -January 9, 2013	41	7,824	5.26

Source: Central Bank of Kenya

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The average repo rate remained largely unchanged at 6.48 percent during the week ending January 9, 2013 compared with 6.46 percent recorded in the previous week.

Chart A: The Structure of Interest Rates

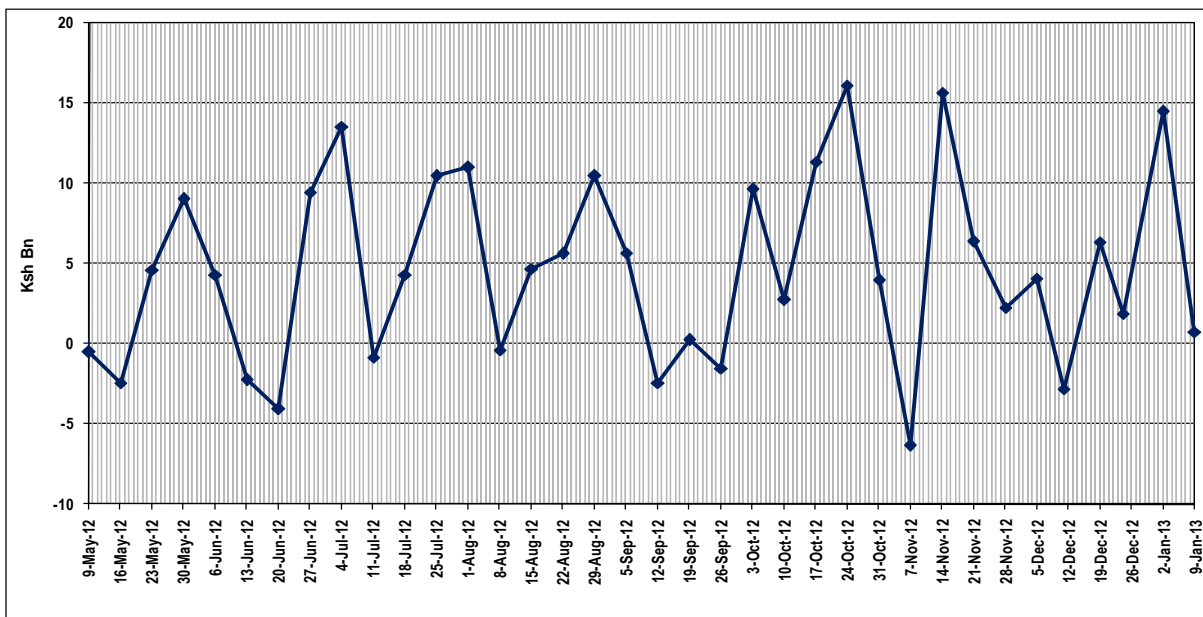


Source: Central Bank of Kenya

Commercial Banks Clearing Account Balances

Commercial banks recorded a surplus of Ksh 0.71 billion in their settlement accounts in relation to the monthly average cash reserve requirements of 5.25 percent (Ksh 89.4 billion) at the Central Bank in the week to January 9, 2013 compared with Ksh 11.47 billion in the previous week (Chart B).

Chart B: Weekly Average Deviation from CRR in the Clearing Account



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The Shilling Exchange Rate

The Kenya Shilling exchange rate depicted mixed performance against major international currencies in the week ending January 10, 2013. During the week, the Kenya Shilling depreciated by 0.45 percent against the USD and appreciated by 0.49 percent, 0.62 percent and 0.84 percent against the Sterling Pound, the Euro and the Japanese Yen respectively to trade at an average of KSh 86.50 per USD, KSh 138.88 per Sterling Pound, KSh 113.01 per Euro and KSh 98.57 per 100 Japanese Yen compared to KSh 86.11 per USD, KSh 139.56 per Sterling Pound, KSh 113.72 per Euro and KSh 99.41 per 100 Japanese Yen in the week ending January 3, 2013.

Against regional currencies, the Kenya Shilling also depicted mixed performance in the week ending January 10, 2013. During the week, the Kenya Shilling marginally appreciated against the Uganda Shilling and depreciated against Rwanda Franc and Burundi Franc to trade at an average of US\$ 31.38, RWF 7.14 and BIF 17.34 compared to US\$ 31.20, RWF 7.18 and BIF 17.75. Against the Tanzania Shilling, the Shilling traded at the same level as the previous week, exchanging at an average of TSh 18.42.

Table 3: Kenya Shilling Exchange Rates

	US dollar	Sterling Pound	Euro	Japanese Yen	USHS	TSHS	RWF	BIF
21-Dec-12	86.00	139.70	113.53	102.29	30.77	18.43	7.19	17.85
24-Dec-12	85.90	138.97	113.28	101.91	30.88	18.45	7.19	17.87
27-Dec-12	85.86	138.66	113.59	100.07	30.96	18.33	7.20	17.85
21-27 Dec 2012	85.92	139.11	113.46	101.42	30.87	18.40	7.19	17.86
28-Dec-12	85.96	138.65	113.67	100.03	31.00	18.39	7.19	17.89
31-Dec-12	86.03	139.02	113.56	99.90	31.26	18.42	7.18	17.87
2-Jan-13	86.08	140.51	114.21	98.70	31.31	18.44	7.18	17.69
3-Jan-13	86.36	140.05	113.45	98.98	31.23	18.41	7.16	17.57
28 Dec 2012-3 Jan 2013	86.11	139.56	113.72	99.41	31.20	18.42	7.18	17.75

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank decreased from US Dollar 5,369 million (equivalent to 4.21 months of import cover) as at January 3, 2013 to US Dollar 5,282 million (equivalent to 4.15 months of import cover) in the week ending January 10, 2013 (Table 4).

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Table 4: Official Foreign Reserves US\$ Million (Usable)

	22-Nov-12	29-Nov-12	06-Dec-12	13-Dec-12	20-Dec-12	27-Dec-12	03-Jan-13
Usable Reserves*	5,383	5,382	5,374	5,377	5,385	5,396	5,369
Months of Imports Cover**	4.23	4.22	4.22	4.22	4.23	4.24	5.21

*Excludes encumbered reserves

**Based on 36 month average of imports of goods and non-factor

Source: Central Bank of Kenya

Government Securities Auction

The Government offered for sale Ksh 4.0 billion in 91-day Treasury bills and Ksh 3.0 billion in 182-day Treasury bills during the week ending January 11, 2013. The 91 day paper attracted bids worth Ksh 4.5 billion (112.07 performance rate), out of which Ksh 2.7 was accepted. Similarly, the 182 day paper attracted bids amounting to Ksh 1.5 billion, representing a performance rate of 49.54 percent, out of which Ksh 1.3 was accepted. Total non-competitive bids amounted to Ksh 1.0 billion.

Interest Rates on Government securities

Weighted average interest rates for the 91-day and 182-day Treasury bills declined further by 1.7 and 0.7 basis points, respectively, to stand at 8.105 percent and 8.093 percent during the week ending January 11, 2013.

Table 5: Government Securities Interest rates

Auction date	24-Jun-11	26-Oct-12	30-Nov-12	14-Dec-12	21-Dec-12	28-Dec-12	04-Jan-13	11-Jan-13
91-day T. Bills*	8.995	9.945	8.445	8.174	8.142	8.138	8.122	8.105
182-day T. Bills*		10.761	9.336	9.021	9.046	8.100	8.100	8.093
364-day T. Bills*			11.709				11.670	
2 year FXD T. Bonds		12.496			12.382			
5 year FXD T. Bonds								
15year FXD T. Bonds								
20 year FXD T. Bonds	14.822							

*Weighted rates for accepted bids

Source: Central Bank of Kenya

Government Domestic Debt

Gross Government domestic debt increased by Ksh 112.3 billion to Ksh 971.2 billion on January 4, 2013, from Ksh 858.8 billion at the end of June 2012. This followed increases of Ksh 64.2 billion, Ksh 29.1 billion and Ksh 18.1 billion in the stocks of Treasury bills, Treasury bonds and Government overdraft at the Central Bank, respectively. Other domestic debt increased by Ksh 0.9 billion during the period.

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Table 6: Government Domestic Debt (Ksh Billion)

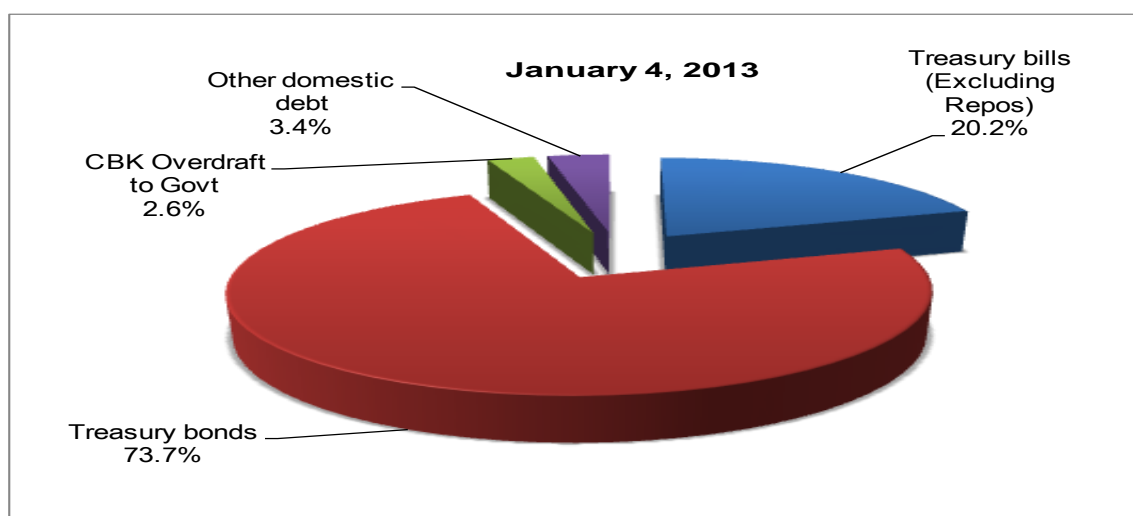
	Jun 2012	Sep 2012	30th Nov 2012	21st Dec 2012	28th Dec 2012	4th Jan 2013	Changes	
							28th Dec 2012- 4th Jan 2013	29th Jun 2012 - 4th Jan 2013
1. Treasury Bills (Excluding Repos) (As % of total securities)	132.0 16.1	159.7 18.5	184.2 20.5	192.8 21.2	196.9 21.6	196.3 21.5	-0.6	64.2
2. Treasury Bonds (As % of total securities)	687.0 83.9	703.9 81.5	715.3 79.5	715.3 78.8	716.1 78.4	716.1 78.5	0.0	29.1
3. Total Securities (1+2)	819.0	863.6	899.5	908.1	912.9	912.3	-0.6	93.3
4. Overdraft at Central Bank	7.3	25.4	25.4	25.4	25.4	25.4	0.0	18.1
5. Other Domestic debt*	32.6	33.2	33.5	33.6	33.5	33.5	0.0	0.9
6. Gross Domestic Debt (3+4+5)	858.8	922.2	958.4	967.1	971.8	971.2	-0.6	112.3
7. Interest payments on domestic debt	82.3	25.2	45.8	48.3	53.3	53.6	0.3	

* Other domestic debt includes clearing items in transit, advances from commercial banks, Pre-1997 Government Overdraft and Tax Reserve Certificates .

Source: Central Bank of Kenya

During the week ending 4th January, 2013, gross government domestic debt declined by Ksh 0.6 billion on account of the stocks of Treasury bills (Table 6). The average time to maturity of Government securities declined to 4 years and 9 months during the week ending January 4, 2013, from 5 years and 4 months at the end of June 2012.

Chart C: Composition of Government Domestic Debt



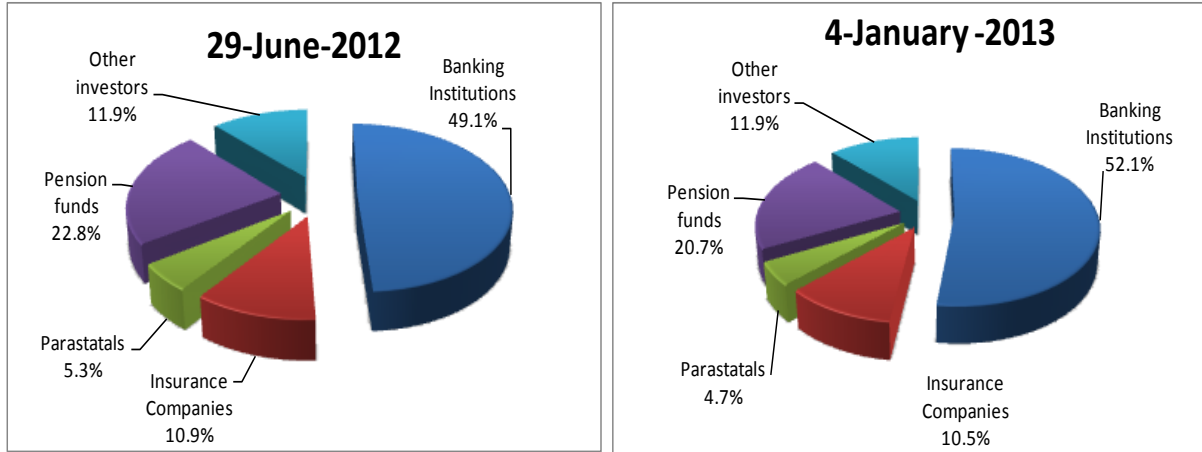
Holdings of Government Securities

Government securities accounted for 93.9 percent of gross domestic debt on January 4, 2013 (Chart C). Commercial bank holdings of Government securities increased from 49.1 percent at the end of June 2012 to 52.1 percent on January 4, 2013. Percentage holdings of insurance companies, parastatals and pension funds declined from 10.9 percent, 5.3 percent and 22.8 percent to 10.5 percent, 4.7 percent and 20.7 percent, respectively, during the same period. Holdings by other investors, which comprise of Saccos', listed and private companies, self-help groups, educational institutions, religious

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institutions and individuals remained the same at 11.9 percent, during the same period (Chart D).

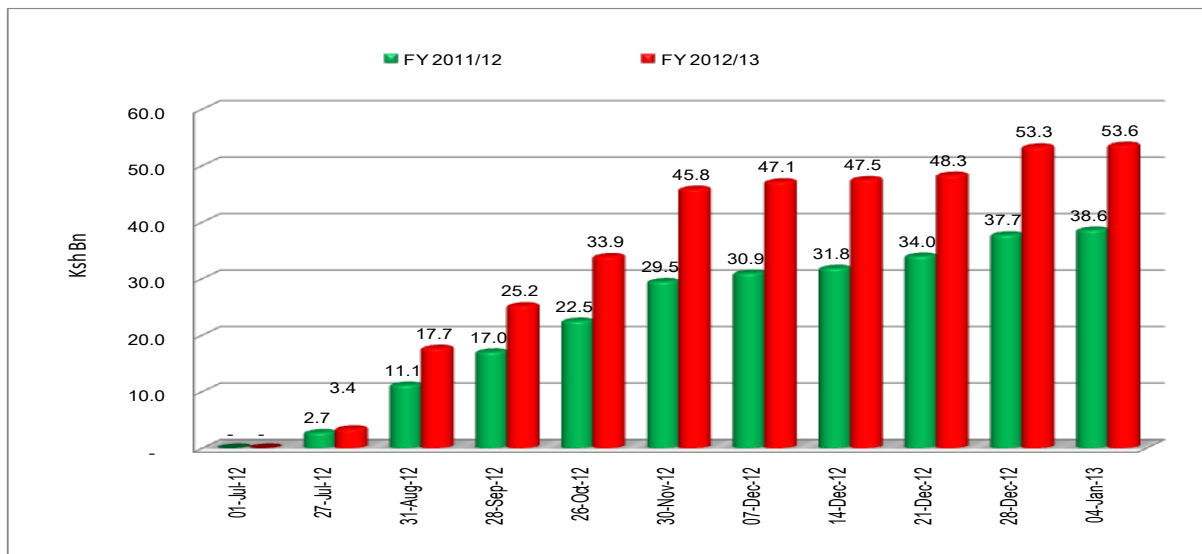
Chart D: Holding of Government Securities by Investors



Cost of Domestic Borrowing

Cumulative interest and other charges on domestic debt for the period July 1, 2012 to January 4, 2013 in the 2012/13 fiscal year amounted to Ksh 53.6 billion compared with Ksh 38.6 billion during a similar period of the previous fiscal year (Chart E). The cost during the period was on account of interest and other charges on Treasury bills and Treasury bonds amounting to Ksh 10.6 billion and Ksh 40.6 billion, respectively. In addition, interest on Government overdraft and the pre-1997 Government overdraft amounted to Ksh 1.6 billion and Ksh 0.8 billion, respectively.

Chart E: Cumulative Interest Payments on Domestic Debt (Ksh billion)



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Capital Markets

The capital market performance was strong in the week ending January 10, 2013. Most of all key market indicators for both equities and bonds segments gained, with equity turnover more than tripling on account of increased shares supply and price rally.

Equities Market

The NSE 20 Share Index rose to 4,319.73 points on January 10, 2013 from 4,159.25 points on January 3, 2012 (Table 7). NASI surpassed the 100 points mark last seen on August 21, 2008, to peak at 101.02 points from 96.07 points. Market capitalization that measures shareholders' wealth rose to KSh 1,354.57 billion from KSh. 1,288.14 billion. Equity turnover was 317.4 percent higher due to high volume of shares traded, to a record Ksh 2,014.43 million from KSh 482.65 million.

Table 7: Key Weekly Market Statistics

Week Ending	1-Nov-12	8-Nov-12	15-Nov-12	22-Nov-12	29-Nov-12	6-Dec-12	13-Dec-12	27-Dec-13	3-Jan-13	10-Jan-13
NASI 100= Jan 2008	91.28	91.83	92.66	93.18	92.26	91.52	92.80	96.07	96.07	101.02
NSE 20 Share Index 100=1966	4,133.28	4,148.79	4,160.49	4,162.79	4,111.92	4,022.64	4,031.70	4,159.25	4,159.25	4,319.73
Number of Deals	7,462	6,875	6,804	6,606	7,206	6,611	4,933	3,407	3,407	6,697
Total Shares Traded (millions)	114.52	129.71	144.78	206.39	294.09	154.13	162.88	32.50	3,250.00	99.60
Equity Turnover (Ksh. millions)	3,052.73	2,127.22	2,056.19	2,624.16	2,923.53	2,068.16	2,106.87	482.65	4,826.54	2,014.43
Market Capitalization (Ksh. Bn.)	1,211.89	1,219.30	1,234.90	1,241.92	1,235.26	1,225.32	1,244.37	1,288.14	1,288,137.00	1,354.57
Bonds Turnover (Ksh. millions)	17,671.45	11,309.25	7,240.80	4,359.75	8,979.95	6,630.55	3,972.85	3,447.90	3,447.90	8,575.75
FTSE NSE Kenya 15 Index	121.66	122.64	123.65	122.50	120.82	119.53	121.70	126.74	126.74	132.91
FTSE NSE Kenya 25 Index	124.27	125.19	126.19	124.87	123.50	122.35	124.61	129.64	129.64	136.12
Index(Jan2012=100)	96.00	102.65	96.83	96.71	96.00	94.84	95.26	92.86	92.86	92.02

* The Nairobi All Share Index (NASI) effected on February 25, 2008 (January 1, 2008 = 100)

Source: Nairobi Securities Exchange

Telecoms and Technology, Banking and Manufacturing and Allied sectors were the top three most active, transacting 41.78 million or 41.9 percent; 18.73 million or 18.8 percent and 14.45 million or 14.5 percent of all traded shares, respectively. Safaricom Ltd, Mumias Sugar Co. Ltd and Kenya Commercial Bank Ltd were the three most active counters with 39.61 million, 11.97 million and 11.13 million shares traded, respectively. Agriculture sector was least active, trading 291,300 shares.

The biggest closing and average price gains for the week were for BAT Kenya Ltd and East African Breweries Ltd at KSh 25 and KSh 15.65 per share, respectively. The biggest closing and average price losses were for City Trust Ltd and Kenya re-Insurance at Ksh 10 and Ksh 1.45 per share, respectively. Of the 48 active counters, 35 had average price gain in the week ending January 10, 2013.

FTSE NSE Kenya Index Series

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As indicated in Table 7, FTSE NSE Kenya 15 Index, which measures stocks performance of 15 largest companies by market capitalization, gained 6.17 points to close at 132.91 points from 126.74. FTSE NSE Kenya 25 Index, which measures 25 most liquid stocks at NSE gained by 6.48 points to 136.12 points from 129.64 points the previous week. This is the highest level since these indices were launched on November 08th 2011. FTSE NSE Kenyan Shilling Government Bond Index, which measures the performance of Kenya's domestic bond market, closed at 92.02 points compared to 92.86 points the previous week, reflecting rising yields and falling prices.

The Bond Market

Bond trading activity more than doubled to register 148.7 percent rise in turnover, to reach KSh 8,575.8 million for the week ending January 10, 2013 from KSh 3,447.9 million in the previous week. Corresponding deals rose to 125 from 45 the previous week. This reflects increased market confidence as investors look for return.